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SOVIET ECONOMIC STRINGENCIES: EXTERNAL REACTIONS AND  
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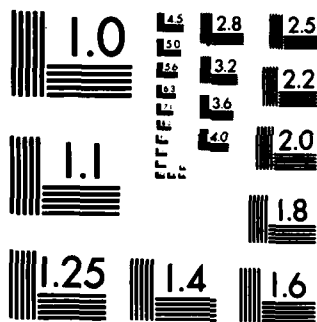
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SOVIET ECONOMIC STRINGENCIES: EXTERNAL REACTIONS AND REPERCUSSIONS

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Soviet Economic Stringencies: External Reactions and Repercussions\*

I.

I will assume the term "Soviet economic stringencies" means an annual growth in real national product or material product in the "above-ground" Soviet economy of not more than 3%: if the stringencies are "severe," the corresponding growth would be 2% or less. Hence, under these circumstances, it becomes increasingly difficult for Soviet leadership to reconcile the competing resource claims of the military, the domestic economy, and the Soviet empire in Eastern Europe and abroad. Specifically, the leadership will be compelled (in the absence of substantial Western credits, or a sharp rise in the price of oil, or massive gold sales, or an act of God) to forgo or abridge some of the following choices:

- a. Maintaining growth of real military spending and production at the 1970s' rate (say, 2 1/2% per annum if you believe the CIA figures, or something like double that rate if you prefer the DIA figures, and a similar range of estimates outside the government community);
- b. Maintaining the 1970s' annual rate of growth in aggregate consumption of 3%;
- c. Allocating sufficient resources to research and development and to new investment to reverse the declining rates of growth in labor productivity and total factor productivity;

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\*Prepared for a symposium on "Soviet Economic Stringencies: Political and Security Implications," sponsored by the National Defense University and the Defense Intelligence College, Fort McNair, Washington, D.C., May 10-11, 1984.

- d. Meeting the increased demands for resources in the health sector to reverse the extraordinary declines experienced in recent years in Soviet vital statistics; and
- e. Sustaining the 1970s' growth in the costs of the Soviet empire in Eastern Europe and abroad, which attained an annual rate over the decade of about 16%, and reached a level between 6% and 7% of Soviet GNP at the end of the decade.

Before considering external reactions and repercussions to Soviet "economic stringencies" so defined, a paradox in the use of the term is worth noting: A real rate of growth in the above-ground Soviet economy of 3% or thereabouts describes a Soviet environment of "economic stringencies," whereas annual growth of 3% in the OECD countries in the forthcoming decade might well be viewed by them as quite tolerable, and perhaps even reassuring. What appears "stringent" in the Soviet context might even be heartening in the West European context!

What accounts for this paradox? Without developing the point further, I suggest the explanation lies in (a) the implicitly different criteria used for evaluating performance in the two contexts; or (b) the different meanings of growth statistics in the two contexts; or (c) some combination of these two explanations.

## II.

What about reactions and repercussions in the West to these prospective Soviet economic stringencies?

There are two parts to my answer: First, reactions and repercussions will differ in different Western countries and indeed among different groups within each of these countries; second, the differing reactions will depend principally on the prior beliefs, premises, and preconceptions of the observers, rather than on differing notions about the "stringencies" themselves. Reactions will vary between regret, anxiety, perhaps even alarm on the one hand, to applause, gratification, and reassurance on the other. Repercussions will range between advocacy of credits, trade subsidization, and various forms of relief to ease the pressures created by Soviet economic stringencies, on the one hand, and espousal of reduced credits to the Soviet Union and its empire, elimination of credit and trade subsidies, and maintaining or increasing the severity of controls on military-related and dual use technology from the West, on the other. European reactions and their associated policy repercussions will tend to cluster at the former end of this range, while reactions and repercussions in the United States will tend to cluster at the other end.

Nevertheless, within both Europe and the United States--especially the United States--diverse views will be manifest. For example, it is more or less self-evident that each member of the following pairs of people or institutions within the United States is likely to react to Soviet economic stringencies quite differently from the other member: Walter Mondale and Ronald Reagan; Cyrus Vance and Zbigniew Brzezinski; George Kennan and Paul Nitze; Marshall Shulman and Richard Pipes; Tom Wicker and William Safire; The New York Times and The Wall Street Journal; the Foreign Service and the military services; the Brookings Institution and the Hoover Institution.



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Such prospective differences in reactions are, I believe, accounted for by certain underlying beliefs or premises concerning the nature of the Soviet system and the principal objectives of its leadership. These beliefs can be usefully characterized as "mirror-imaging" (MI) and "power-maximizing" (PM).[1] Before elaborating this point, I want to acknowledge that this dichotomy is an oversimplification; that it harbors the fallacy of the excluded middle; that many people, probably including some or most of those participating in this symposium, do not believe their positions can be adequately characterized by either of these labels; and that various nuances and combinations between them are certainly possible. However, while granting these objections, I think this dichotomy conveys something useful, indeed central, for anticipating and explaining the differing reactions and repercussions that can be expected in the West to the prevalence of Soviet economic stringencies.[2]

The mirror-imaging view of the Soviet system and its leadership holds that apparent Soviet aggressiveness, expansionism, and preoccupation with enhanced military capabilities grows out of Russian history and culture. These preoccupations may border on paranoia and consequently may take aggressive forms. However, such manifestations are considered by mirror-imagers to be understandable in the light of

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[1] For a fuller exposition, see my essay on "Extended Containment", pp 149-153, in Beyond Containment (Wildavsky, ed.), Institute of Contemporary Studies Press, San Francisco, 1983.

[2] These contrasting premises also have considerable explanatory power with respect to how people line up on a myriad of other specific issues in the domain of East-West relations, including the Strategic Arms Reductions Talks, INF, preferred policies toward El Salvador and Nicaragua, and East-West economic relations.



Soviet history, including the experience of Western efforts to abort the Bolshevik Revolution, the 20 million casualties suffered by the Soviet Union in World War II, and the virulently anti-communist rhetoric that is sometimes heard in various right-wing circles in the West. Preoccupation with military strength, and a high likelihood that resource allocations to the military will be maintained and perhaps even increased in the event of economic stringencies are, according to the mirror-imaging view, explained mainly by this historic legacy.

Nevertheless, according to MI, the long-term aims of the Soviet Union have much in common with our own: human betterment and well-being, social progress, peace, prosperity, and justice. According to MI, a more forthcoming Western policy--one that combines concessions with firmness--is likely to produce over time a symmetrical rather than an exploitative response from the Soviet leadership, and perhaps also an irenic evolution of the Soviet system. In the absence of such concessions, mirror-imagers tend to view Soviet economic stringency with concern if not alarm, lest these stringencies increase Soviet paranoia and aggressiveness. This reaction by holders of the MI view is likely to lead them to favor various forms of credits, subsidies, increased trade, and other means of easing the pressures that Soviet economic stringencies would otherwise create within the system and within the Soviet leadership.

By contrast, the power-maximizing view holds that, whatever the grim experiences of Soviet history, and whatever the philosophical and ideological antecedents of Soviet communism, the overriding objective of the system is to maximize the political and military power of the Soviet state at home, and to expand it abroad. According to power-maximizers,

concessions made to the Soviet Union by the United States or the West, and agreements and transactions with it, are fair game for exploitation and deception by the Soviet Union in the interests of maximizing its power and expansion. The PM position denies, or at least seriously doubts, that economic and social betterment are important goals of the system as it really operates. Instead, holders of the power-maximizing position view the deferral of these goals as readily acceptable to the Soviet leadership, perhaps even obscurely welcomed by it, as a justification for enhancing Soviet vigilance and power, and imposing sacrifices on the Soviet people, in response to ubiquitous external and internal threats.

In contrast to the mirror-imaging view, those who subscribe to the power-maximizing position regard the prospect of Soviet economic stringencies with equanimity, if not glee, on the grounds that such stringencies will constrict the options open to the Soviet leadership for reconciling the competing claims of its military establishment, its domestic economy, and its empire abroad.

Thus, differences between the mirror-imaging and power-maximizing views of the Soviet system lead to predictable differences between them in reactions to Soviet economic stringencies. These differences in preconceptions and in reactions are also linked to corresponding differences in the policy stances that each of the two groups favors with regard to general issues of East-West economic relations.

According to the mirror-imaging view of East-West economic relations, expanded credits, trade, and technology transactions between the West and the Soviets will tend to moderate Soviet expansionism and thereby ease the Soviet threat to Western Europe. This is the viewpoint

that underlay detente in the 1970s--a policy which, by and large, the United States views as moribund if not dead, but which our Western European allies, especially the Federal Republic, would like to revive. Henry Kissinger's theory about the "web of relationships" and the idea of "linkage" was a sophisticated version of the mirror-imaging view. If current and prospective Soviet economic stringencies are viewed through the lens of mirror-imaging, a plausible policy response is to favor Western measures to ease these stringencies either as a direct emollient, or as a quid pro quo (i.e. the "linkage" variant). In general, I expect reactions in Western Europe, as well as in certain financial and business and other circles in the United States, to Soviet economic stringencies to be along these lines.

By way of contrast, the power-maximizing view adopts a different stance. Its premises are, first, that the Soviet Union is, in the political and military spheres, a committed adversary of the West; and, second, that East-West economic relations will, at most, influence Soviet political-military behavior only slightly and gradually. The next step in this reasoning is to realize that Soviet behavior, both international and domestic, depends on two factors: 1) the resources and opportunities available to the Soviet Union; and 2) the attitudes, preferences, and priorities of its leadership.

The first factor simply implies a production possibility curve (or, more precisely, a hyperplane: tradeoffs are not only between guns and butter, but between these and the prestige and power associated with the external Soviet empire). The second factor represents the relative valuation, or preferences (or implicit "prices") attached to these alternative types of benefits by Soviet decisionmakers. With unchanged

preferences, but with additional resources, Soviet leadership can devote more effort (resources) to its continued military buildup, or to expansion of the outside empire, while holding consumption constant. With unchanged resources, but with a shift toward more aggressive attitudes and preferences, the leadership can do the same thing. With either reduced resources, or more irenic attitudes and preferences, Soviet behavior will tend to be less aggressive. In other words, resource availabilities constrain behavior, while attitudes and preferences motivate it: behavior is the resultant of the two.

Soviet economic stringencies, like net reductions in Western credits and trade, will assuredly reduce Soviet resources and opportunities. However, there is no evidence that such restrictions will affect Soviet attitudes or preferences in one way or another. Some commentators, like George Kennan, Marshall Shulman, and probably some members of this symposium as well, believe that either internally-generated economic stringencies or externally-generated resource constraints are likely to provoke the Soviets and cause them to assume more aggressive and belligerent preferences and attitudes. Others, with equivalent credentials, like Richard Pipes, Paul Nitze, Vladimir Bukovsky, and probably several members of this symposium as well, believe that economic stringencies, as well as resource denial by the West, would instead lead the Soviets toward more accommodating attitudes. Still others, like the author of this paper, believe that economic stringencies will have no predictable effect on Soviet attitudes, but will assuredly narrow the possibilities and options available to the Soviet Union.

With respect to East-West economic relations, those who adhere to the power-maximizing view, and who believe that Soviet attitudes are either insensitive to Western economic policies or would be modulated by them, infer from this line of reasoning that the West should aim to restrict the resources available to the Soviet Union through the following sorts of measures:

- Reducing or removing all forms of subsidization in trade, technology transfer, and credit transactions with the Soviet Union.
- Adopting a policy of "cash on the barrelhead" to finance all trade with the Soviet Union, thereby avoiding any temptation by alliance members to compete with one another in the credit terms they offer.
- Taxing windfall profits (economic rents) that sometimes are received by Western exporters or importers from the premium prices paid or charged by the Soviet Union: such premiums suggest that the Soviets derive special benefits (political or economic) from the transactions.[3]

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[3]Of course, opposition to such a policy would be both vocal and influential in both the United States and Western Europe. Although the transactions that are at stake are small in the aggregate, they are important to specific political and economic interests within each OECD country. Consequently, promoting alliance cohesion on these matters requires careful and continuing consultation among the Western countries, as well as multilateral efforts to ameliorate in the short term the costs imposed on those particular sectors that would be most affected by a decline in East-West transactions.

With respect to internally generated economic stringencies in the Soviet Union itself, adherents of the power-maximizing view adopt a similar position. They regard with favor the constricting effect that such stringencies will have on the ability of Soviet leadership to reconcile the conflicting claims of the domestic economy, the military, and the empire abroad. Reflecting this viewpoint, Peter Wiles concludes that:

a fat communist is not peaceful and a thin one is not bellicose, but the opposite is also not true. A communist as such (and above all a Russian communist) is bellicose and as he becomes fatter, he buys and makes more and better weapons. One cannot buy peace with him but, on the contrary, he becomes fat from profitable trade.[4]

### III.

What reactions to Soviet economic stringencies are likely in the countries that comprise the so-called, but quite inappropriately called, "Third World"? Will the accumulating evidence of the deficient and declining performance of the Soviet economy diminish the appeal in the Third World of the rigid, centrally-planned Soviet model? Will this in turn lead to retrenchment of the extended Soviet empire, or at least to retardation in its further expansion?

I think such consequences are unlikely for several reasons.

The first reason is that the ingredients of successful economic development have been previously demonstrated over the past two decades in the few Third World countries that have shown a strong commitment to economic development: namely, Korea, Taiwan, Singapore, Malaysia, Turkey, Mexico and Brazil. Notwithstanding the setbacks that some of

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[4] See Peter Wiles, The Conduct of East-West Relations in the 1980s, September 1983 (forthcoming).

these countries have periodically experienced over that time (as a result of sharp changes in international terms of trade, and of excessive dipping into the international credit market), the ingredients of successful development have been quite plainly evident from their records. Soviet economic stringencies are not needed to demonstrate, by counter example, what these ingredients are.

The ingredients of successful development include political components (specifically, an explicit and enforced system of laws, non-violent economic transactions, a respected system of property rights delineating what is public and what is private, and established and accepted rules for governmental succession, or at least infrequent occurrence of regime changes), as well as economic components (for example, a major role for market forces and market prices in the allocation of resources and in the determination of leading and lagging sectors, competitive participation in international export markets, control of hyper-inflation, suitable levels of capital inflow and foreign investment, and the import, adaptation, and diffusion of advancing technology).[5] That most countries of the Third World have been unwilling or unable to adopt policies along these lines has not been due principally to their belief that the centrally-planned, rigidly-controlled Soviet model constituted a promising alternative path to development. Instead, this reluctance has been due to other factors discussed below, and these other factors are quite remote from and unaffected by Soviet economic stringencies.

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[5]For a more extended treatment of these ingredients of effective economic development, see my "Economic Success, Stability, and the 'Old' International Order," International Security, Volume 6, Number 1, Summer 1981, pages 75-92.

Repercussions in the Third World to Soviet stringencies are likely to be minimal for another reason. Despite rhetorical flourishes by Third World spokesmen in UNCTAD and other international forums, and despite the unavoidable tendency of Western observers to attribute to the Third World countries the values that have seemed to the West appropriate for them to adopt, economic development is among but certainly not at the top of, the policy priorities of most of the Third World. If one looks at behavior rather than rhetoric, objectives other than economic development dominate the competition for resources and attention in the Third World. These other objectives include a striving for greater national recognition and prestige in the international community (reflected, for example, in hyperactivity in international organizations and in diplomatic representation abroad), the acquisition of advanced military and non-military equipment and technology without concern for their effectiveness or productivity, the disposition to exercise ideological preferences (for socialism or etatisme), the pursuit of territorial and other disputes with traditional regional adversaries, and an inclination to emphasize international redistribution rather than domestic economic growth.

Because economic development is not the principal objective motivating the leadership of most Third World countries, flagging Soviet economic performance is not likely to have much effect on the appeal and attraction of the Soviet model in the Third World. On the contrary, the powerful appeal to Third World leadership exercised by the rigidly-controlled and centrally-planned Soviet model lies not in its putative economic advantages, but rather in its political and military



attributes. In effect, the attraction exercised by the Soviet model stems from its ability to provide Third World leadership with a method for acquiring and enhancing domestic political power, and expanding the military dimensions of a transformed social structure as the essential backup for political power.

In sum, because the principal appeal of the Soviet model is political and military rather than economic, Soviet economic stringencies are not likely to reduce the appeal of the Soviet model in the Third World. This is not to suggest that this appeal will lead to a dramatic expansion of Soviet influence through extension of its empire in the future any more than has been characteristic of the recent past. It is rather to suggest that the gradual extension of that empire, or at least continuation of Soviet efforts in that direction, are not less likely to ensue simply because of prospective economic stringencies encountered by the Soviet Union.

However, there is one respect in which economic stringencies in the Soviet Union may have an impact in the Third World. During the decade of the 1970s, about 3 1/2% of the Soviet GNP was absorbed by the Soviet empire through trade subsidies, export credits, economic and military aid (net of hard currency sales), military operations in Afghanistan, and covert and destabilization activities.[6] At the end of the 1970s decade this share had risen to about 6% of Soviet national product. Although a considerable part of these resource burdens were incurred in the CMEA countries of Eastern Europe, and were directly attributable to the pricing formula for Soviet oil exports to those countries, at least

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[6] See The Costs of the Soviet Empire, Charles Wolf, Jr., K.C. Yeh, Edmund Brunner, Aaron Gurwitz, and Marilee Lawrence, The Rand Corporation, R-3073/1-NA, September 1983.

40% of the total empire costs were incurred in Cuba, Vietnam, Afghanistan, and other Third World countries. Soviet economic stringencies, unless they are appreciably relieved by Western credits, are likely to induce the Soviet leadership to be more parsimonious in its willingness to accept these burdens in the future. On the other hand, the expansion of Soviet international influence and power ranks sufficiently high among the objectives of the leadership that strong efforts will be made to meet the requisite costs of the empire, even in the face of economic stringencies at home.

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